SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

MANUALLY SIGNED ORIGINAL

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X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

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For the quarterly period ended January 31, 1992 or

___ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-17521

ZILA, INC.
(Exact name of registrant as specified in its charter)

Delaware	IRS No. 86-0619668
(State or Other Jurisdiction incorporation or organization)	(IRS Employer Identification Number)

5227 North 7th Street, Phoenix, Arizona	85014
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (602)266-6700

(former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No. ____

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of the Company's common stock outstanding as of January 31, 1992 was 21,019,673 shares.

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Exhibit 10
Total pages 12

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ZILA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JANUARY 31, 1992 AND JULY 31, 1991

ASSETS	January 31, 1992	July 31, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$1,280,082	$1,125,180
Trade accounts receivable, less allowance for bad debts of $5,000	466,220	490,644
Notes receivable	148,847	
Inventories	301,843	297,011
Prepaid expenses	147,513	91,426
TOTAL CURRENT ASSETS	2,344,505	2,004,261
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of $102,234 (January 31,1992) and $80,829 (July 31, 1991)	719,962	708,230
DEFERRED PATENT AND LICENSING COSTS - Net of accumulated amortization of $201,047 (January 31, 1992) and $186,630 (July 31,1991)	319,145	300,789
	$3,383,612	$3,013,280
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$239,220	$251,114
Accrued royalties	19,782	24,547
Other accrued expenses	80,983	67,503
Deferred revenue		9,000
Current portion of long-term debt	6,136	6,136
TOTAL CURRENT LIABILITIES	346,121	358,300
LONG-TERM DEBT	439,606	442,588
SHAREHOLDERS' EQUITY:		
Preferred stock, $.001 par value - authorized 2,500,000 shares; none issued		
Common stock, $.001 par value - authorized, 50,000,000 shares; issued 21,019,673 shares (January 31, 1992) and 19,867,915 shares (July 31, 1991)	21,020	19,868
Capital in excess of par value	10,418,767	10,097,284
Deficit	(7,841,477)	(7,904,335)
	2,598,310	2,212,817
Less 42,546 common shares held by wholly-owned subsidiary	(425)	(425)
	2,597,885	2,212,392
	$3,383,612	$3,013,280

ZILA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarters ended		Six months ended	
	January 31, 1992	January 31, 1991	January 31, 1992	January 31, 1991
NET SALES	$686,250	$894,003	$1,899,337	$1,929,964
COST OF SALES	84,548	124,880	247,554	274,212
GROSS PROFIT	601,702	769,123	1,651,783	1,655,752
ROYALTIES, net of expenses	18,525	912	37,050	(2,768)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	(714,237)	(762,306)	(1,623,713)	(1,532,900)
(LOSS) INCOME FROM OPERATIONS	(94,010)	7,729	65,120	120,084
OTHER INCOME (EXPENSES):				
Interest income	12,828	12,492	25,468	32,480
Interest expense	(13,415)	(2,414)	(27,730)	(2,414)
	(587)	10,078	(2,262)	30,066
NET INCOME (LOSS)	($94,597)	$17,807	$62,858	$150,150
INCOME PER SHARE	-	-	-	$.01

See notes to consolidated financial statements.

ZILA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	January 31, 1992	January 31, 1991
OPERATING ACTIVITIES:		
Net income	$62,858	$150,150
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	35,822	20,377
Change in assets and liabilities:		
Trade accounts receivable	24,424	(137,842)
Notes receivable	(148,847)	
Inventories	(4,832)	(35,453)
Prepaid expenses	(56,087)	7,365
License fee receivable		35,000
Accounts payable and accrued expenses	(12,179)	(267,963)
Total adjustments	(161,699)	(378,516)
NET CASH USED IN OPERATING ACTIVITIES	(98,841)	(228,366)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(33,128)	(634,959)
Patents and licensing costs incurred	(32,782)	(27,493)
NET CASH USED IN INVESTING ACTIVITIES	(65,910)	(662,452)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt		450,000
Repayment of long-term debt	(2,982)	
Proceeds from issuance of common stock	322,635	17,361
NET CASH PROVIDED BY FINANCING ACTIVITIES	319,653	467,361
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	154,902	(423,457)
CASH AND CASH EQUIVALENTS, beginning of fiscal year	1,125,180	1,064,723
CASH AND CASH EQUIVALENTS, end of period	$1,280,082	$641,266
CASH PAID FOR INTEREST	$27,730	$2,414

ZILA, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management of Zila, Inc. and subsidiaries (the "Company"), all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included in the consolidated financial statements. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the entire year.

2. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less, including interest bearing commercial paper, to be cash equivalents.

3. Income per share is computed on the weighted average number of shares outstanding during each period after giving effect for any dilutive stock options and warrants which are considered to be common stock equivalents. Income per share has been computed using the modified treasury method as required when options and warrants exceed 20% of the weighted average common shares outstanding.

	January 31, 1992	January 31, 1991
Weighted average common shares outstanding:		
Quarter ended	20,443,658	17,986,515
Six months ended	20,232,202	17,531,448

4. Inventories consist of the following:

	January 31, 1992	July 31,1991
Finished goods	$ 166,964	$ 187,355
Empty tubes and packaging materials	134,879	109,656
	$ 301,843	$ 297,011

5. The Company expects to report income before income taxes for the year ending July 31, 1992; however, the Company has net operating loss carryforwards of approximately $7,895,000 to offset taxable income.

6. The Company has obtained a $250,000 revolving bank line of credit which is collateralized by trade accounts receivable, inventories and rights to payment. Interest is payable monthly on the unpaid balance at the rate of one and three quarters percent (1.75%) more than the prime rate of interest charged by the bank. The Company has not borrowed against this line of credit.

7. Notes receivable consist of notes from two officers for withholding taxes due upon option exercise. Such notes are due December 31, 1992, with interest at 5.12%. On March 11, 1992, $100,000 was paid to the Company with respect to one of the notes. The Company also loaned $218,228 to two other officers in January 1992. Such amount was repaid to the Company by January 31, 1992.

ZILA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Conditions and Results of Operations

Results of Operations:

For the quarter ended January 31, 1992, the Company had a net loss of $94,597 compared to net income of $17,807 for the quarter ended January 31, 1991. For the six month period ended January 31, 1992, the Company had net income of $62,858 compared to net income of $150,150 for the six month period ended January 31, 1991.

Sales during the second quarter of this fiscal year totaled $686,250, compared to $894,003 during the second quarter of the previous fiscal year, a 23.2% decrease. For the first six months of this fiscal year, sales were $1,899,337 compared to $1,929,964 for the same period of the prior fiscal year, a 1.6% decrease. Management believes the second quarter was affected by slower economic conditions. In Addition, the Company took steps during the second quarter of fiscal year 1992 to curtail potentially damaging actions by certain accounts to divert the Company's products. Diversion of products can result from the abuse of the Company's first time buyer allowances by accounts who then resell such products at reduced prices to the Company's regular customers. To counter this diverting, during the closing weeks of the second quarter, the Company traced diverting transactions and refused orders totalling more than $275,000. Management believes that it must maintain a reputation that will prevent diverters from undermining the Company's ability to service its customers directly.

Trends in the Company's current order pattern suggest that the supply of product that could be diverted is nearly exhausted. Because industry statistics show that the Company's products continue to gain in unit sales and category position, management believes that the volume turned away in the second quarter should be recovered during the remaining months of calendar year 1992.

In the second quarter ended January 31, 1992, cost of sales decreased 32.3% from the same period last year, $124,880 to $84,548. For the six month period ended January 31, 1992, cost of sales decreased 9.7% from the same period last year, $274,212 to $247,554. These changes were primarily related to the decrease in the number of units sold. Also, the percentage of cost of sales to net sales decreased from 14.0% in the quarter ended January 31, 1991 to 12.3% in the quarter ended January 31, 1992 and from 14.2% to 13.0% for the six month periods in 1991 and 1992, respectively. These changes were primarily due to product and new customer promotional discounts. The Company's manufacturing costs continue to be favorable as a result of a contract with Kolmar Laboratories, Inc., its primary product manufacturer.

Selling, general and administrative expenses decreased $48,069, from $762,306 in the second quarter of fiscal 1991 to $714,237 in the second quarter of fiscal 1992, and increased $90,813, from $1,532,900 during the first six months of fiscal

1991 to $1,623,713 during the six months of fiscal 1992. Of such decreases, approximately $36,000 for the quarter and $16,000 for the six months ended January 31,1992 as compared to the same periods in the last fiscal year were attributable to decreased sales commission, product liability insurance and freight charges resulting from the Company's decreased sales volume. Royalties and partnership commissions paid by the Company decreased approximately $101,000 for the quarter and $198,000 for the six months as a result of the buyout of the Daleco Partnership obligation consummated in the 1991 fiscal year. Marketing and sales expenses decreased approximately $16,000 for the quarter primarily as a result of a decrease in trade show participation and promotional expenses. For the six months ended January 31, 1992 marketing and sales expenses increased approximately $76,000 primarily as a result of increased trade show participation, advertising and promotion in the first quarter of fiscal year 1992. Administrative expenses increased approximately $70,000 for the quarter and $112,000 for the six months ended January 31, 1992, due to professional services, travel, public and shareholder relations. Internal funding of product development, primarily related to products the Company plans to introduce this year, increased approximately $36,000 for the quarter and $117,000 for the six months over the same periods of the previous fiscal year.

Interest income increased to $12,828 in the second quarter of fiscal year 1992 from $12,492 in the second quarter of fiscal year 1992. For the six months ended January 31, 1992 interest income decreased $7,012 to $25,468 from the same period last year primarily due to the decrease in interest rates and the need for additional working capital. The increase in interest expense, $11,001 for the quarter and $25,316 for the six month period over the same periods last year was primarily related to the purchase of the Company's office building in February 1991. Net royalties were $18,525 in the quarter ended January 31, 1992 compared to $912 in the quarter ended January 31, 1992. For the six months ended January 31, 1992, net royalties were $37,050 compared to net expense of $2,768 for the six months ended January 31, 1991.

The Company's primary marketing thrust continues to be attendance at professional and trade meetings preceded by direct mailings to attendees in selected areas. At the meetings, contact is made with the health care professionals (dentists, physicians, pharmacists, hygienists) who prescribe and recommend the Company's products and with the buyers of major pharmacy chains and wholesalers who place the orders for the Company's product line. New products and recently completed clinical information is highlighted during these contacts.

During the second quarter of fiscal year 1992, the Company participated in nine meetings. Four were general dental, three other meetings were specialty groups including the national meeting of dermatologists, the American military surgeons meeting and a meeting of consulting pharmacists. The Company also attended meetings of The National Association of Service Merchandisers and the National Food Brokers Association, organizations whose members cater to the retailers that stock the Company's products.

The Company's licensees also report progress. Bausch & Lomb completed their first year of sales in Canada and met their projected goal. This is particularly significant because Bausch & Lomb was out of inventory for two months due to a packaging problem which has since been corrected. It is worthy to note that the Canadian introduction of Zilactin(TM) was rated as one of 1991,s top ten pharmaceutical introductions in Canada by Drug Merchandising, a Canadian publication.

Two of three regulatory hurdles have now been cleared paving the way for introduction of Zilactin(TM) into the United Kingdom. These approvals will also help with the European regulatory clearance.

The MGI Pharma product, Oratect, which is licensed under the Zilactin(TM) patents, has been met with a very positive response by users. The early response from retailers was also very positive and distribution is building. A packaging reconfiguration was also implemented which will bring down the unit sale price.

Liquidity and Capital Resources

At July 31, 1991, the Company had net working capital of $1,645,961, and a current ratio of 5.6 to 1. At January 31, 1992, the Company had net working capital of $1,998,384, and a current ratio of 6.8 to 1. This increase in the current ratio was due to reduction of current liabilities, generation of earnings and the exercise of warrants and options for the purchase of the Company's common stock.

As of January 31, 1992, the any had no material commitments for capital expenditures. The Company does not believe there are any known trends, demands, commitments, events or uncertainties which are likely to significantly affect the Company's liquidity.

Management believes that continued growth in the Company's sales will provide sufficient funding for the Company's current operations for the next twelve months. The Company may require additional financing to support production of its products in quantities sufficient to support market expansion. In anticipation of these potential requirements, the Company has obtained a $250,000 line of credit with the Valley National Bank of Arizona.

Part II - Other Information

Item 4 - Submission of matters to a vote of security holders.

(a) The Company held its Annual Meeting on December 13, 1991.

(b) Joseph Hines, Clarence J. Baudhuin, Kobo Fukutaki, Edwin D. McKay, M.D., Carl A. Schroeder, James E. Tinnell, M.D., and H. Ray Cox were elected directors of the Company at the Annual Meeting.

(c) At the Annual Meeting, the Company's stockholders ratified Deloitte & Touche as auditors for the Company for 1991 fiscal year. The vote was as follows:

Votes for	Votes withheld	Votes against
14,556.547	113,490	13,523

(d) Not applicable.

Item 5 - Other information

On December 10, the Company publicly announced that it had entered into letters of agreement with Medical Polymers of Sacramento, California for the exclusive right to manufacture and distribute Medical Polymers' line of products. Such letters of agreement provided for Medical Polymers' assignment to the Company of certain proprietary rights embodied in the Medical Polymers products. At the time of the public announcement, management of the Company believed that it had reached an agreement with Medical Polymers that was to be memorialized in final documentation.

Since the time of the public announcement, Medical Polymers proposed changes to the material terms and conditions of the letters of agreement. Such proposed changes would have significantly reduced the economic benefit to the Company and thus were unacceptable to the Company. Medical Polymers has refused to execute any final documentation relating to the terms and conditions set forth in the letters of agreement. Consequently the Company's Board of Directors has authorized the institution of legal action against Medical Polymers to require Medical Polymers to perform in accordance with the terms and conditions which the Company believes there was previous agreement, and to recover costs and damages incurred by the Company arising out of Medical Polymers failure to perform.

Also, during the second quarter, two new patents were issued to the Company covering extensions and additions of the technology embodied in the Zilactin(TM) family of gel products until the year 2009.

In addition, during the second quarter the Company entered into two assignment and royalty agreements (the "CTM Agreement and the "CRA Agreement", respectively).

CTM Agreement

The CTM Agreement is between CTM Associates, Inc. ("CTM") and the Company and provides for the assignment by CTM to the Company of CTM's present and future rights in OrasCan and certain associated patent rights and related formulae, techniques, manufacturing, trade secrets and other information as well as all trademarks of other symbols to be used in connection with OrasCan. OrasCan is a proprietary pharmaceutical product developed by CTM for the detection of oral cancer.

CRA Agreement

The CRA Agreement is between CRA and the Company and provides for the assignment by CRA to the Company of CRA's present and future rights in PeriGel and related formulae, techniques, manufacturing, trade secrets and other information as well as all trademarks or other symbols to be used with PeriGel. PeriGel is a dentifrice system developed by CRA which comprises a first tube containing baking soda toothpaste and a second tube containing a hydrogen peroxide gel.

Item 6 - Exhibits and Reports on Form 8-K

(a) No exhibits are required by Item 601 of Regulation S-K

(b) No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended January 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date March 13, 1992

By _____
Joseph Hines
President, Chairman of the Board
(Principal Executive Officer)

By _____
Clarence J. Baudhuin
Executive Vice President of
Finance & Administration,
Treasurer, Director
(Principal Financial &
Accounting Officer)